

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2007

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Northwood-Kensett Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
(Before September 2006 Election)		
Larry Hovey	President	2008
Keith Braun	Vice President	2006
John Anderson	Board Member	2007
Don Pangburn	Board Member	2007
Cindy Pangburn	Board Member	2008

Board of Education
(After September 2006 Election)

Larry Hovey	President	2008
John Anderson	Vice President	2007
Don Pangburn	Board Member	2007
Cindy Pangburn	Board Member	2008
Keith Braun	Board Member	2009

School Officials

Tom Nugent	Superintendent	2007
Karen Abrahams	District Secretary/ Treasurer	2007
John Greve	District Attorney	2007

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Northwood-Kensett Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Northwood-Kensett Community School District, Northwood, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Northwood-Kensett Community School District at June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated February 29, 2008 on our consideration of Northwood-Kensett Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 34 through 35 are not required

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parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Northwood-Kensett Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2006 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Another auditor previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2004 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 6, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Nolte, Cornman & Johnson PC
NOLTE, CORNMAN & JOHNSON, P.C.

February 29, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

Northwood-Kensett Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$4,296,800 in fiscal year 2006 to \$4,519,229 in fiscal year 2007, while General Fund expenditures increased from \$4,092,390 in fiscal 2006 to \$4,330,624 in fiscal 2007. This, along with a sale of equipment and materials of \$2,282, resulted in an increase in the District's General Fund balance from \$476,603 in fiscal 2006 to \$667,490 in fiscal 2007, a 40% increase from prior year.
- The increase in General Fund revenues was attributable to allowable growth as allowed by the SBRC, special education deficit allowable growth and an increase in miscellaneous income. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits.
- Overall, the District increased net assets in the governmental activities by \$529,297, and increased in the business-type activities by \$24,394, respectively.
- We're in our 10th year of a 20 year Debt Service on New Elementary Construction and Junior/Senior Remodeling Project, which ends in 2017 for \$3,765,000.
- In March of 2004, the District purchased a wind turbine for \$60,000. The purchase was financed by a \$135,000 Energy Loan. One-half of the loan has a 4.38% rate, and the other one-half of the loan is interest free. The turbine remained on the property it was built on. The District has taken out a 26 year lease for \$1,850 per year, which began in July, 2005 and end on July 1, 2031.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Northwood-Kensett Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Northwood-Kensett Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Northwood-Kensett Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Northwood-Kensett Community School District Annual Financial Report

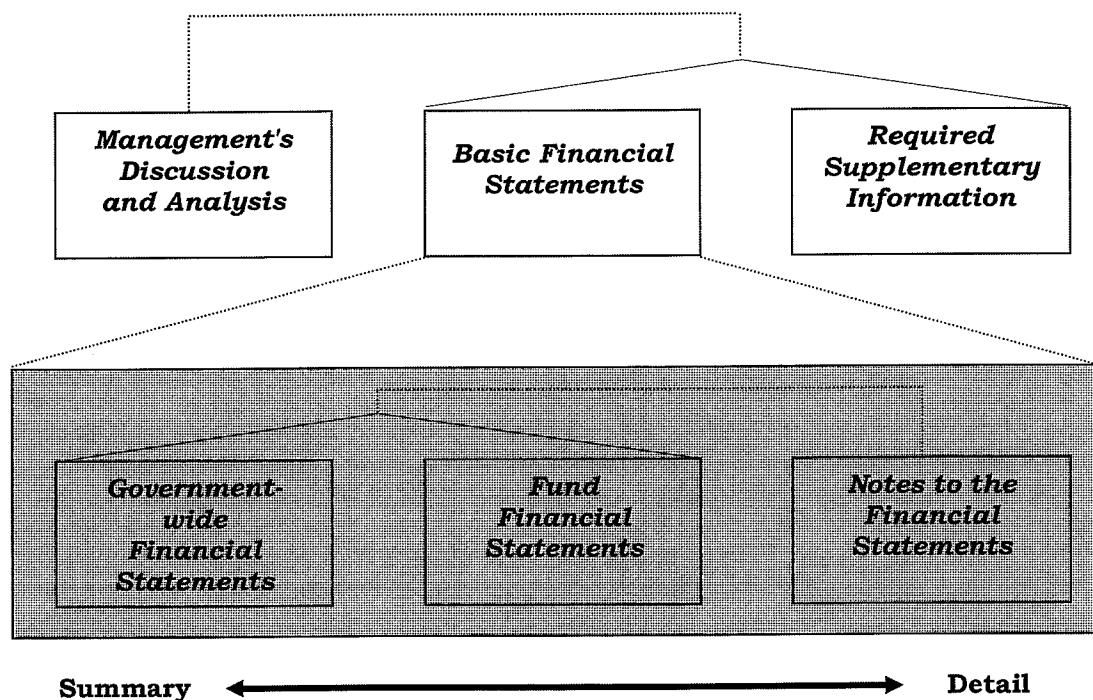


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2

Major Features of the Government-Wide and Fund Financial Statements

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows.

- 3) *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust.

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2007 compared to June 30, 2006.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-07
Current and other assets	\$ 4,019,445	3,719,582	43,999	16,745	4,063,444	3,736,327	8.76%
Capital assets	4,034,328	4,089,390	12,682	15,053	4,047,010	4,104,443	-1.40%
Total assets	8,053,773	7,808,972	56,681	31,798	8,110,454	7,840,770	3.44%
Long-term obligations	2,460,281	2,745,641	0	0	2,460,281	2,745,641	-10.39%
Other liabilities	2,474,064	2,473,200	1,382	893	2,475,446	2,474,093	0.05%
Total liabilities	4,934,345	5,218,841	1,382	893	4,935,727	5,219,734	-5.44%
Net assets:							
Invested in capital assets, net of related debt	1,608,559	1,477,684	12,682	15,053	1,621,241	1,492,737	8.61%
Restricted	798,992	586,218	0	0	798,992	586,218	36.30%
Unrestricted	711,877	526,229	42,617	15,852	754,494	542,081	39.18%
Total net assets	\$ 3,119,428	2,590,131	55,299	30,905	3,174,727	2,621,036	21.12%

The District's combined net assets increased by 21.12%, or \$553,691 over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately 36% over the prior year. The increase was primarily a result of the increase in the Capital Projects fund balance.

Unrestricted net assets-the part of net assets that can be used to finance day-by-day operations without constraints established by debt covenants, enabling legislation or other legal requirements- increased approximately 39% over the prior year.

Figure A-4 shows the changes in net assets for the year ended June 30, 2007 compared to June 30, 2006.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-07
Revenues:							
Program revenues:							
Charges for services	\$ 299,005	246,027	163,206	161,656	462,211	407,683	13.38%
Operating grants and contributions and restricted interest	535,680	503,803	90,660	89,343	626,340	593,146	5.60%
Capital grants and contributions and restricted interest	13,792	0	0	0	13,792	0	100.00%
General revenues:							
Property tax	2,344,166	2,214,519	0	0	2,344,166	2,214,519	5.85%
Local option sales and service tax	309,125	258,880	0	0	309,125	258,880	0.00%
Unrestricted state grants	1,907,732	1,982,284	0	0	1,907,732	1,982,284	-3.76%
Other	109,637	107,689	215	193	109,852	107,882	1.83%
Total revenues	5,519,137	5,313,202	254,081	251,192	5,773,218	5,564,394	3.75%
Program expenses:							
Governmental activities:							
Instructional	3,245,816	3,019,142	0	0	3,245,816	3,019,142	7.51%
Support services	1,295,737	1,271,202	0	0	1,295,737	1,271,202	1.93%
Non-instructional programs	0	0	229,687	233,727	229,687	233,727	-1.73%
Other expenses	448,287	541,843	0	0	448,287	541,843	-17.27%
Total expenses	4,989,840	4,832,187	229,687	233,727	5,219,527	5,065,914	3.03%
Change in net assets	529,297	481,015	24,394	17,465	553,691	498,480	11.08%
Net assets beginning of year	2,590,131	2,109,116	30,905	13,440	2,621,036	2,122,556	23.48%
Net assets end of year	\$ 3,119,428	2,590,131	55,299	30,905	3,174,727	2,621,036	21.12%

In fiscal 2007, property tax and unrestricted state grants account for 77.0% of the revenue from governmental activities while charges for services and operating grants and contributions account for 99.9% of the revenue from business type activities.

The District's total revenues were approximately \$5.77 million of which \$5.52 million was for governmental activities and \$.25 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 3.75% increase in revenues and a 3.03% increase in expenses. The increase in expenses was related to the increases in the negotiated salary and benefits.

Governmental Activities

Revenues for governmental activities were \$5,519,137 and expenses were \$4,989,840.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2007	2006	Change 2006-07	2007	2006	Change 2006-07
Instruction	\$ 3,245,816	3,019,142	7.51%	2,581,697	2,444,723	5.60%
Support services	1,295,737	1,271,202	1.93%	1,295,222	1,260,789	2.73%
Other expenses	448,287	541,843	-17.27%	264,444	376,845	-29.83%
Totals	<u>\$ 4,989,840</u>	<u>4,832,187</u>	<u>3.26%</u>	<u>4,141,363</u>	<u>4,082,357</u>	<u>1.45%</u>

- The cost financed by users of the District's programs was \$299,005.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$549,472.
- The net cost of governmental activities was financed with \$2,344,166 in property tax, \$309,125 in local option sales and services tax, \$1,907,732 in unrestricted state grants and \$46,446 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$254,081 and expenses were \$229,687. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Northwood-Kensett Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$1,462,273, above last year's ending fund balances of \$1,180,352. However, the primary reason for the increase is due to the District's controlled spending in the General Fund and the increase in local option sales and service tax in the Capital Projects Fund.

Governmental Fund Highlights

- The District's General Fund financial position changed from \$476,603 to \$667,490. This was due to the controlled spending by the District. Expenditure for the year only increased \$238,234, while revenues increased \$222,429. The revenues still exceeded expenditures by \$190,887 to ensure the increase in the fund balance.
- The District continued receiving local option sales and service tax from Worth County, which resulted in an increase in the revenues. The Capital Projects Fund transferred \$118,533 to the Debt Service during the year for debt relief. This transfer and the increase in expenditures during the year only allowed the fund balance to increase by \$8,364.

- The Special Revenue, Management Levy fund balance increased from \$105,656 to \$156,786, due to the decrease in expenditures during the current year.

Proprietary Funds Highlights

The School Nutrition Fund net assets increased from \$30,905 at June 30, 2006 to \$55,299 at June 30, 2007, representing an increase of 78.9%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$205,336 more than budgeted revenues, a variance of 3.7%. The most significant variance resulted from the District receiving less in local sources than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the Districts practice, the certified budget was exceeded in the other expenditures function.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2007, the District had invested \$4,047,010, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$619,656.

The original cost of the District's capital assets was \$7,715,684. Governmental funds account for \$7,617,235 with the remainder of \$98,449 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the building category. The District's buildings totaled \$3,732,838 at June 30, 2006 compared to \$3,608,161 at June 30, 2007. The decrease was due to the current year depreciation.

Figure A-6
Capital Assets, Net of Depreciation

	Capital Assets, Net of Depreciation							
	Governmental		Business-Type		Total		Total	
	Activities		Activities		School District		Change	
	June 30,		June 30,		June 30,		June 30,	
	2007	2006	2007	2006	2007	2006	2006-07	
Land	\$ 36,425	36,425	0	0	36,425	36,425	0.00%	
Buildings	3,608,161	3,732,838	0	0	3,608,161	3,732,838	-3.34%	
Improvements other than buildings	184,289	135,333	0	0	184,289	135,333	36.17%	
Machinery and equipment	205,453	184,794	12,682	15,053	218,135	199,847	9.15%	
Total	\$ 4,034,328	4,089,390	12,682	15,053	4,047,010	4,104,443	-1.40%	

Long-Term Debt

At June 30, 2007, the District had \$2,460,281 in other long-term debt outstanding. This represents a decrease of 10.4% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had outstanding general obligation bonded indebtedness payable of \$2,390,000 at June 30, 2007.

At year-end, the District had total energy capital loan notes payable from the Special Revenue, Physical Plant and Equipment Levy of \$35,769.

The District had total outstanding early retirement payable from the Special Revenue, Management Fund of \$16,898 at June 30, 2007.

Also, the District had compensated absences of \$17,614, which is a decrease of 4.6% from the prior year.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2007	2006	2006-07
General obligation bonds	\$ 2,390,000	2,575,000	-7.2%
Capital loan notes	35,769	125,664	-71.5%
Early retirement	16,898	26,515	-36.3%
Compensated absences	17,614	18,462	-4.6%
Totals	<u>\$ 2,460,281</u>	<u>2,745,641</u>	<u>-10.4%</u>

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Increases in health insurance premiums, along with salaries and benefits for the employees is always a concern for the District.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.
- The voters of Worth County passed the Local Option Sales and Services in 2004. This 1 cent tax on sales and services will greatly benefit the District in maintaining their buildings, purchasing equipment and debt repayment.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Karen Abrahams, District Secretary and Business Manager, Northwood-Kensett Community School District, 1200 1st Avenue North, P.O. Box 289, Northwood, Iowa, 50459-0289.

BASIC FINANCIAL STATEMENTS

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2007

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and pooled investments	\$ 1,353,433	31,601	1,385,034
Receivables:			
Property tax:			
Delinquent	36,215	0	36,215
Succeeding year	2,388,946	0	2,388,946
Income surtax	92,955	0	92,955
Accounts	11,709	7,783	19,492
Due from other governments	136,187	0	136,187
Inventories	0	4,615	4,615
Capital assets, net of accumulated depreciation(Note 4)	4,034,328	12,682	4,047,010
Total Assets	8,053,773	56,681	8,110,454
Liabilities			
Accounts payable	75,271	230	75,501
Accrued interest payable	9,847	0	9,847
Deferred revenue:			
Succeeding year property tax	2,388,946	0	2,388,946
Unearned revenue	0	1,152	1,152
Long-term liabilities(Note 5):			
Portion due within one year:			
General obligation bonds payable	190,000	0	190,000
Energy loan notes payable	11,463	0	11,463
Early retirement payable	5,633	0	5,633
Compensated absences payable	17,614	0	17,614
Portion due after one year:			
General obligation bonds payable	2,200,000	0	2,200,000
Energy loan notes payable	24,306	0	24,306
Early retirement payable	11,265	0	11,265
Total Liabilities	4,934,345	1,382	4,935,727
Net Assets			
Invested in capital assets, net of related debt	1,608,559	12,682	1,621,241
Restricted for:			
Salary improvement program	5,684	0	5,684
Additional teacher contract day	2,100	0	2,100
Professional development	371	0	371
Market factor	3,807	0	3,807
Other	9,145	0	9,145
Management levy	139,888	0	139,888
Physical plant and equipment levy	93,732	0	93,732
Capital projects	415,757	0	415,757
Debt service	37,330	0	37,330
Other special revenue purposes	91,178	0	91,178
Unrestricted	711,877	42,617	754,494
Total Net Assets	\$ 3,119,428	55,299	3,174,727

SEE NOTES TO FINANCIAL STATEMENTS.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
JUNE 30, 2007

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	
Functions/Programs							
Governmental activities:							
Instruction:							
Regular instruction	\$ 1,941,914	93,036	337,693	0	(1,511,185)	0	(1,511,185)
Special instruction	743,155	9,037	27,421	0	(706,697)	0	(706,697)
Other instruction	560,747	196,932	0	0	(363,815)	0	(363,815)
	<u>3,245,816</u>	<u>299,005</u>	<u>365,114</u>	<u>0</u>	<u>(2,581,697)</u>	<u>0</u>	<u>(2,581,697)</u>
Support services:							
Student services	64,307	0	0	0	(64,307)	0	(64,307)
Instructional staff services	103,279	0	0	0	(103,279)	0	(103,279)
Administration services	538,601	0	0	0	(538,601)	0	(538,601)
Operation and maintenance of plant services	397,720	0	0	0	(397,720)	0	(397,720)
Transportation services	191,830	0	515	0	(191,315)	0	(191,315)
	<u>1,295,737</u>	<u>0</u>	<u>515</u>	<u>0</u>	<u>(1,295,222)</u>	<u>0</u>	<u>(1,295,222)</u>
Other expenditures:							
Facilities acquisitions	17,545	0	0	13,792	(3,753)	0	(3,753)
Long-term debt interest	128,528	0	0	0	(128,528)	0	(128,528)
AEA flowthrough	170,051	0	170,051	0	0	0	0
Depreciation(unallocated)*	132,163	0	0	0	(132,163)	0	(132,163)
	<u>448,287</u>	<u>0</u>	<u>170,051</u>	<u>13,792</u>	<u>(264,444)</u>	<u>0</u>	<u>(264,444)</u>
Total governmental activities	4,989,840	299,005	535,680	13,792	(4,141,363)	0	(4,141,363)
Business-Type activities:							
Non-instructional programs:							
Nutrition services	229,687	163,206	90,660	0	0	24,179	24,179
Total business-type activities	<u>229,687</u>	<u>163,206</u>	<u>90,660</u>	<u>0</u>	<u>0</u>	<u>24,179</u>	<u>24,179</u>
Total	<u>\$ 5,219,527</u>	<u>462,211</u>	<u>626,340</u>	<u>13,792</u>	<u>(4,141,363)</u>	<u>24,179</u>	<u>(4,117,184)</u>
General Revenues and Transfers:							
Property tax levied for:							
General purposes					\$ 2,003,815	0	2,003,815
Capital outlay					147,891	0	147,891
Debt service					192,460	0	192,460
Local option sales and services tax					309,125	0	309,125
Unrestricted state grants					1,907,732	0	1,907,732
Unrestricted investment earnings					46,446	215	46,661
Transfers					(5,307)	0	(5,307)
Other					68,498	0	68,498
Total general revenues					<u>4,670,660</u>	<u>215</u>	<u>4,670,875</u>
Changes in net assets					529,297	24,394	553,691
Net assets beginning of year					<u>2,590,131</u>	<u>30,905</u>	<u>2,621,036</u>
Net assets end of year					<u>\$ 3,119,428</u>	<u>55,299</u>	<u>3,174,727</u>

* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO FINANCIAL STATEMENTS.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	General	Capital Projects	Special Revenue- Management Levy	Other Nonmajor Governmental Funds	Total
Assets					
Cash and pooled investments	\$ 673,315	309,916	153,524	216,678	1,353,433
Receivables:					
Property tax					
Delinquent	28,623	0	2,030	5,562	36,215
Succeeding year	1,862,414	0	200,000	326,532	2,388,946
Income surtax	92,955	0	0	0	92,955
Accounts	11,709	0	0	0	11,709
Due from other governments	29,114	105,841	1,232	0	136,187
Total Assets	\$ 2,698,130	415,757	356,786	548,772	4,019,445
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 75,271	0	0	0	75,271
Deferred revenue:					
Succeeding year property tax	1,862,414	0	200,000	326,532	2,388,946
Income surtax	92,955	0	0	0	92,955
Total liabilities	2,030,640	0	200,000	326,532	2,557,172
Fund balances:					
Reserved for:					
Salary improvement program	5,684	0	0	0	5,684
Additional teacher contract day	2,100	0	0	0	2,100
Professional development	371	0	0	0	371
Market factor	3,807	0	0	0	3,807
Other	9,145	0	0	0	9,145
Debt service	0	0	0	37,330	37,330
Unreserved	646,383	415,757	156,786	184,910	1,403,836
Total fund balances	667,490	415,757	156,786	222,240	1,462,273
Total Liabilities and Fund Balances	\$ 2,698,130	415,757	356,786	548,772	4,019,445

SEE NOTES TO FINANCIAL STATEMENTS.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2007

Total fund balances of governmental funds (page 15)	\$ 1,462,273
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not report as assets in in the governmental funds.	4,034,328
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	92,955
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(9,847)
Long-term liabilities, including general obligation bonds payable, capital loan notes payable, early retirement payable and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(2,460,281)</u>
Net assets of governmental activites (page 13)	<u><u>\$ 3,119,428</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2007

	General	Capital Projects	Special Revenue- Management Levy	Other Nonmajor Governmental Funds	Total
REVENUES:					
Local sources:					
Local tax	\$ 1,862,608	309,125	125,052	340,351	2,637,136
Tuition	102,073	0	0	0	102,073
Other	111,455	4,703	20,333	173,103	309,594
State sources	2,306,907	0	82	237	2,307,226
Federal sources	136,186	0	0	13,792	149,978
Total revenues	4,519,229	313,828	145,467	527,483	5,506,007
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	1,756,311	160,329	40,875	763	1,958,278
Special instruction	743,155	0	0	0	743,155
Other instruction	404,315	0	0	156,432	560,747
	2,903,781	160,329	40,875	157,195	3,262,180
Support services:					
Student services	64,307	0	0	0	64,307
Instructional staff services	103,279	0	0	0	103,279
Administration services	525,329	0	13,029	243	538,601
Operation and maintenance of plant services	362,386	0	28,728	0	391,114
Transportation services	201,491	0	11,705	0	213,196
	1,256,792	0	53,462	243	1,310,497
Other expenditures:					
Facilities acquisitions	0	26,602	0	47,385	73,987
Long-term debt:					
Principal	0	0	0	274,895	274,895
Interest	0	0	0	129,451	129,451
AEA flowthrough	170,051	0	0	0	170,051
	170,051	26,602	0	451,731	648,384
Total expenditures	4,330,624	186,931	94,337	609,169	5,221,061
Excess(deficiency) of revenues over(under) expenditures	188,605	126,897	51,130	(81,686)	284,946
Other financing sources(uses):					
Transfer in	0	0	0	226,348	226,348
Transfer out	0	(118,533)	0	(113,122)	(231,655)
Sale of equipment and materials	2,282	0	0	0	2,282
Total other financing sources(uses)	2,282	(118,533)	0	113,226	(3,025)
Net change in fund balances	190,887	8,364	51,130	31,540	281,921
Fund balance beginning of year	476,603	407,393	105,656	190,700	1,180,352
Fund balance end of year	\$ 667,490	415,757	156,786	222,240	1,462,273

SEE NOTES TO FINANCIAL STATEMENTS.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2007

Net change in fund balances - total governmental funds (page 17) \$ 281,921

**Amounts reported for governmental activities in the
 statement of activities are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of current depreciation exceed expenditures in the current year, as follows:

Depreciation expense	\$ (617,285)	
Capital outlays	<u>562,223</u>	(55,062)

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.		16,155
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early Retirement	\$ 9,617	
Compensated absences	<u>848</u>	10,465

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.		274,895
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Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

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Changes in net assets of governmental activities (page 14)		<u><u>\$ 529,297</u></u>
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SEE NOTES TO FINANCIAL STATEMENTS.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2007

	<u>School</u> <u>Nutrition</u>
Assets	
Current assets:	
Cash and pooled investments	\$ 31,601
Accounts receivable	7,783
Inventories	4,615
Capital assets, net of accumulated depreciation (Note 4)	<u>12,682</u>
Total Assets	<u>56,681</u>
Liabilities	
Accounts payable	230
Unearned revenues	<u>1,152</u>
Total Liabilities	<u>1,382</u>
Net Assets	
Invested in capital assets	12,682
Unrestricted	<u>42,617</u>
Total Net Assets	<u>\$ 55,299</u>

SEE NOTES TO FINANCIAL STATEMENTS.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2007

	<u>School Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Charges for service	<u>\$ 163,206</u>
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	68,834
Benefits	24,862
Services	5,264
Supplies	128,169
Depreciation	2,371
Other	187
TOTAL OPERATING EXPENSES	<u>229,687</u>
OPERATING LOSS	<u>(66,481)</u>
NON-OPERATING REVENUES:	
State sources	3,090
Federal sources	87,570
Interest income	215
TOTAL NON-OPERATING REVENUES	<u>90,875</u>
Net income	24,394
Net assets beginning of year	<u>30,905</u>
Net assets end of year	<u><u>\$ 55,299</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

EXHIBIT I

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2007

	<u>School</u> <u>Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 155,371
Cash received from miscellaneous operating activities	1,134
Cash payments to employees for services	(94,082)
Cash payments to suppliers for goods or services	(120,833)
Net cash used in operating activities	<u>(58,410)</u>
Cash flows from non-capital financing activities:	
State grants received	3,090
Federal grants received	72,812
Net cash provided by non-capital financing activities	<u>75,902</u>
Cash flows from investing activities:	
Interest on investment	<u>215</u>
Net increase in cash and cash equivalents	17,707
Cash and cash equivalents at beginning of year	<u>13,894</u>
Cash and cash equivalents at end of year	<u>\$ 31,601</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (66,481)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	14,758
Depreciation	2,371
Increase in inventories	(1,964)
Increase in accounts receivable	(7,583)
Decrease in accounts payable	(7)
Decrease in salaries and benefits payable	(386)
Increase in unearned revenue	882
Net cash used in operating activities	<u>\$ (58,410)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and investments	<u>\$ 31,601</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2007, the District received Federal commodities valued at \$14,758.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 JUNE 30, 2007

		Private Purpose Trust Scholarship
Assets		
Cash and pooled investments	\$	355,930
Accounts receivable		1,137
Total Assets	\$	357,067
Net Assets		
Restricted for scholarships	\$	332,875
Unrestricted		24,192
Total Net Assets	\$	357,067

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 YEAR ENDED JUNE 30, 2007

	Private Purpose Trust Scholarship
Additions:	
Local sources:	
Interest	\$ 17,720
Deductions:	
Scholarships	19,400
Loss before other financing sources(uses)	(1,680)
Other financing sources(uses):	
Unrealized gain	3,125
Transfer in	19,807
Transfer out	(14,500)
Total other financing sources(uses)	8,432
Change in net assets	6,752
Net assets beginning of year	350,315
Net assets end of year	\$ 357,067

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

(1) **Summary of Significant Accounting Policies**

The Northwood-Kensett Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the Cities of Northwood and Kensett, Iowa, and the predominate agricultural territory in Worth County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Northwood-Kensett Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Northwood-Kensett Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Worth County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The Special Revenue - Management Fund is utilized to account for the payment of property insurance and early retirement benefits.

The District's proprietary fund is the School Nutrition Fund. The Nutrition Fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements, which require income earned to be used to benefit individuals through scholarship awards.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board

Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on

January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2006.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 0
Buildings	2,000
Land improvements	2,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	2,000

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Life (In Years)
Buildings	50 years
Land improvements	20-50 years
Machinery and equipment	5-20 years

Salaries and Benefits Payable - Payroll and related expenditures for annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been

recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenues - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide financial statements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2007. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, expenditures in the other expenditures function exceeded the amounts budgeted.

(2) Cash and Pooled Investments

The District's deposits at June 30, 2007 were entirely covered by federal depository insurance or State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for

additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. The District's investments are all category 1 which means that the investments are insured or registered or the securities are held by the District or its agent in the District's name.

Investments are stated at fair value. Securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates.

The District's investments at June 30, 2007, are as follows:

Type	Fair Value
Corporate bonds	\$ 283,125

At June 30, 2007, the District had investments in certificates of deposit, stated at fair value, maturing over a year as follows:

Type	Fair Value
Certificates of Deposit	\$ 71,577

(3) Transfers

The detail of transfers for the year ended June 30, 2007 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Special Revenue: Physical Plant and Equipment Levy	\$ 93,315
Debt Service	Capital Projects	118,533
Private Purpose Trust	Special Revenue: Expendable Trust	14,500
Special Revenue: Expendable Trust	Private Purpose Trust	19,807
Total		\$ 246,155

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(4) Capital Assets

Capital assets activity for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 36,425	0	0	36,425
Total capital assets not being depreciated	36,425	0	0	36,425
Capital assets being depreciated:				
Buildings	5,876,335	0	0	5,876,335
Land improvements	167,981	56,442	0	224,423
Machinery and equipment	974,271	505,781	0	1,480,052
Total capital assets being depreciated	7,018,587	562,223	0	7,580,810
Less accumulated depreciation for:				
Buildings	2,143,497	124,677	0	2,268,174
Land improvements	32,648	7,486	0	40,134
Machinery and equipment	789,477	485,122	0	1,274,599
Total accumulated depreciation	2,965,622	617,285	0	3,582,907
Total capital assets being depreciated, net	4,052,965	(55,062)	0	3,997,903
Governmental activities capital assets, net	\$ 4,089,390	(55,062)	0	4,034,328
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 98,449	0	0	98,449
Less accumulated depreciation	83,396	2,371	0	85,767
Business-type activities capital assets, net	\$ 15,053	(2,371)	0	12,682

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 427,473
Support services:	
Operation and maintenance of plant	6,606
Transportation	51,043
	485,122
Unallocated depreciation	132,163
Total governmental activities depreciation expense	\$ 617,285
Business-type activities:	
Food services	\$ 2,371

(5) Long-Term Liabilities

A summary of changes in long-term debt for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 2,575,000	0	185,000	2,390,000	190,000
Energy capital loan notes	125,664	0	89,895	35,769	11,463
Early retirement	26,515	0	9,617	16,898	5,633
Compensated absences	18,462	17,614	18,462	17,614	17,614
Total	\$ 2,745,641	17,614	302,974	2,460,281	224,710

General Obligation Bonds Payable

Details of the District's June 30, 2007 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Interest Rates	Bond Issue of May 1, 1998		
		Principal	Interest	Total
2008	5.25	% \$ 190,000	116,750	306,750
2009	5.35	200,000	107,630	307,630
2010	5.45	210,000	98,030	308,030
2011	5.50	220,000	87,950	307,950
2012	5.55	230,000	77,390	307,390
2013-2017	5.60-5.80	1,340,000	205,700	1,545,700
Total		\$ 2,390,000	693,450	3,083,450

Energy Capital Loan Notes Payable

The District issued \$90,000 and \$135,000 of Energy Management Capital Loan Notes during the year ended June 30, 2003 and 2004. The proceeds from the loan were used to implement an energy conservation program and purchase a wind turbine. The first \$90,000 of notes bear interest at 3.96%, the second \$67,500 of notes bear interest at 4.38% and the third \$67,500 of notes are interest free. The second and third series were paid off during the year ended June 30, 2007. The final payment on the first series is in 2010. The first series principal and interest will be paid from the Special Revenue, Physical Plant and Equipment Levy Fund. The note payable is as follows:

Year ended June 30,	Series 1		
	Principal	Interest	Total
2008	\$ 11,463	1,416	12,879
2009	11,917	963	12,880
2010	12,389	491	12,880
Total	\$ 35,769	2,870	38,639

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be between the ages fifty-five and sixty-two and must have completed fifteen years of full time service to the District. Employees must complete an application, which is subject to be approval by the Board of Education. Early retirement incentives are based in the differences between the employee's current base salary and the starting base salary. Early retirement benefits paid during the year ended June 30, 2007, totaled \$9,617. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

(6) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006 and 2005. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$153,026, \$146,671 and \$146,528 respectively, equal to the required contributions for each year.

(7) Risk Management

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$170,051 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the financial statements.

(9) Budget Overexpenditure

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2007, expenditures in the other expenditures function exceeded the amounts budgeted.

REQUIRED SUPPLEMENTARY INFORMATION

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUND
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2007

	Governmental Funds Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 3,048,803	163,421	3,212,224	3,029,084	3,029,084	183,140
Intermediate sources	0	0	0	13,046	13,046	(13,046)
State sources	2,307,226	3,090	2,310,316	2,252,122	2,252,122	58,194
Federal sources	149,978	87,570	237,548	260,500	260,500	(22,952)
Total revenues	5,506,007	254,081	5,760,088	5,554,752	5,554,752	205,336
Expenditures:						
Instruction	3,262,180	0	3,262,180	3,289,175	3,289,175	26,995
Support services	1,310,497	0	1,310,497	1,641,122	1,641,122	330,625
Non-instructional programs	0	229,687	229,687	272,046	272,046	42,359
Other expenditures	648,384	0	648,384	633,559	633,559	(14,825)
Total expenditures	5,221,061	229,687	5,450,748	5,835,902	5,835,902	385,154
Excess(deficiency) of revenues over(under) expenditures	284,946	24,394	309,340	(281,150)	(281,150)	590,490
Other financing sources, net	(3,025)	0	(3,025)	0	0	(3,025)
Excess(deficiency) of revenues and other financing sources over(under) expenditures	281,921	24,394	306,315	(281,150)	(281,150)	587,465
Balance beginning of year	1,180,352	30,905	1,211,257	1,365,276	1,365,276	(154,019)
Balance end of year	\$ 1,462,273	55,299	1,517,572	1,084,126	1,084,126	433,446

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2007

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private-Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis. Encumbrances are not recognized on the GAAP basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2007, expenditures in the other expenditures function exceeded the amounts budgeted.

OTHER SUPPLEMENTARY INFORMATION

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 JUNE 30, 2007

	Special Revenue Funds					Total
	Physical Plant & Equipment Levy	Student Activity	Expendable Trust	Total Special Revenue	Debt Service	Nonmajor Governmental Funds
Assets						
Cash and pooled investments	\$ 91,315	72,231	18,947	182,493	34,185	216,678
Receivables:						
Property tax:						
Current year delinquent	2,417	0	0	2,417	3,145	5,562
Succeeding year	160,290	0	0	160,290	166,242	326,532
Accounts	0	0	0	0	0	0
Total Assets	\$ 254,022	72,231	18,947	345,200	203,572	548,772
Liabilities and Fund Balances						
Liabilities:						
Deferred revenue:						
Succeeding year property tax	\$ 160,290	0	0	160,290	166,242	326,532
Fund balances:						
Reserved:						
Debt service	0	0	0	0	37,330	37,330
Unreserved	93,732	72,231	18,947	184,910	0	184,910
Total fund balances	93,732	72,231	18,947	184,910	37,330	222,240
Total Liabilities and Fund Balances	\$ 254,022	72,231	18,947	345,200	203,572	548,772

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 OTHER NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2007

	Special Revenue Funds					Total
	Physical			Total		Other
	Plant and			Special		Nonmajor
	Equipment	Student	Expendable	Revenue	Debt	Governmental
	Levy	Activity	Trust	Funds	Service	Funds
REVENUES:						
Local sources:						
Local tax	\$ 147,891	0	0	147,891	192,460	340,351
Other	4,169	162,093	615	166,877	6,226	173,103
State sources	103	0	0	103	134	237
Federal sources	13,792	0	0	13,792	0	13,792
TOTAL REVENUES	165,955	162,093	615	328,663	198,820	527,483
EXPENDITURES:						
Current:						
Instruction:						
Regular instruction	0	0	763	763	0	763
Other instruction	0	156,432	0	156,432	0	156,432
Support services:						
Administration services	243	0	0	243	0	243
Other expenditures:						
Facilities acquisitions	47,385	0	0	47,385	0	47,385
Long-term debt:						
Principal	0	0	0	0	274,895	274,895
Interest	0	0	0	0	129,451	129,451
TOTAL EXPENDITURES	47,628	156,432	763	204,823	404,346	609,169
Excess(deficiency) of revenues over(under) expenditures	118,327	5,661	(148)	123,840	(205,526)	(81,686)
OTHER FINANCING SOURCES(USES):						
Transfer in	0	0	14,500	14,500	211,848	226,348
Transfer out	(93,315)	0	(19,807)	(113,122)	0	(113,122)
TOTAL OTHER FINANCING SOURCES(USES)	(93,315)	0	(5,307)	(98,622)	211,848	113,226
Excess(deficiency) of revenues and other financing sources over(under) expenditures and other financing uses	25,012	5,661	(5,455)	25,218	6,322	31,540
FUND BALANCES BEGINNING OF YEAR	68,720	66,570	24,402	159,692	31,008	190,700
FUND BALANCES END OF YEAR	\$ 93,732	72,231	18,947	184,910	37,330	222,240

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2007

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Drama	\$ 436	1,294	289	1,441
Speech	0	5,047	4,204	843
Vocal music	2,224	1,954	607	3,571
Choir robe	1,058	142	0	1,200
High school band	30	1,772	1,501	301
Elementary band	0	90	0	90
High school band uniforms	1,525	602	302	1,825
High school horn rent/repair	656	267	184	739
Band trip	12,254	35,255	41,290	6,219
General athletics	0	278	278	0
Athletic passes	0	4,558	4,558	0
Boys Basketball	0	13,970	13,970	0
Football	0	10,784	10,784	0
District football	(99)	99	0	0
Baseball	0	498	498	0
Boys track	0	1,026	1,026	0
Boys golf	0	8	8	0
Coop wrestling	4,029	3,851	857	7,023
Girls basketball	0	5,990	5,990	0
Volleyball	0	3,056	3,056	0
Softball	0	1,721	3,455	(1,734)
Girls track	0	210	210	0
FFA	(1,089)	38,226	36,414	723
Honor society	40	727	723	44
High school student council	964	1,391	1,100	1,255
Student leadership	347	0	0	347
Cheerleaders	1,096	1,150	979	1,267
Junior high cheerleaders	47	0	0	47
Spanish club	5,037	10,030	5,543	9,524
FCCLA club	76	1,900	1,226	750
Extreme N-K	270	119	25	364
Library	175	0	175	0

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2007

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Class of 2005	108	0	108	0
Class of 2006	402	8	0	410
Class of 2007	71	1,425	1,443	53
Class of 2008	596	2,951	2,639	908
Class of 2009	986	790	31	1,745
Class of 2010	277	730	73	934
Class of 2011	232	255	0	487
Class of 2012	0	335	54	281
Chip	443	365	402	406
Science projects	136	0	0	136
Student planner	105	0	0	105
HS student of the month	1,289	176	404	1,061
Athletic misc.	0	1,241	1,241	0
Beverage machine athletics	0	27	0	27
Yearbook	(5,397)	5,462	5,744	(5,679)
Pepsi donations	2,491	20	920	1,591
Interest on checking	0	222	222	0
Interest on CD's	200	867	1,067	0
Elementary activities	460	0	0	460
Band CD	35,095	1,204	2,832	33,467
Total	\$ 66,570	162,093	156,432	72,231

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 YEAR ENDED JUNE 30, 2007

	Reuben/Helen Cornelius Scholarship	Gilbert Charles Stevens	Hellen Holstad	Richard Mann	Building Trades	Total
Assets						
Cash and pooled investments	\$ 77,173	91,221	182,213	1,923	3,400	355,930
Accounts receivable	0	1,137	0	0	0	1,137
Total Assets	\$ 77,173	92,358	182,213	1,923	3,400	357,067
Net Assets						
Restricted for scholarships	\$ 77,173	73,489	182,213	0	0	332,875
Unrestricted	0	18,869	0	1,923	3,400	24,192
Total Net Assets	\$ 77,173	92,358	182,213	1,923	3,400	357,067

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 YEAR ENDED JUNE 30, 2007

	Reuben/Helen Scholarship	Gilbert Cornelius Stevens	Hellen Holstad	Richard Moen	Building Trades	Osten Music	Total
Additions:							
Interest	\$ 3,236	3,911	8,650	1,923	0	0	17,720
Deductions:							
Scholarships	6,000	4,000	8,900	0	500	0	19,400
EXCESS(DEFICIENCY) OF ADDITIONS OVER(UNDER) DEDUCTIONS	(2,764)	(89)	(250)	1,923	(500)	0	(1,680)
Other financing sources(uses):							
Unrealized gain(loss)	(427)	(50)	3,602	0	0	0	3,125
Transfer in	0	15,907	0	0	3,900	0	19,807
Transfer out	0	0	0	0	0	(14,500)	(14,500)
Total other financing sources(uses)	(427)	15,857	3,602	0	3,900	(14,500)	8,432
EXCESS(DEFICIENCY) OF ADDITIONS AND OTHER FINANCING SOURCES OVER(UNDER) DEDUCTIONS AND OTHER FINANCING USES	(3,191)	15,768	3,352	1,923	3,400	(14,500)	6,752
Balance beginning of year	80,364	76,590	178,861	0	0	14,500	350,315
Balance end of year	\$ 77,173	92,358	182,213	1,923	3,400	0	357,067

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

		Modified Accrual Basis			
		Years Ended June 30			
		2007	2006	2005	2004
Revenues:					
Local sources:					
Local tax	\$	2,637,136	2,473,383	2,376,421	2,154,280
Tuition		102,073	72,369	81,471	64,500
Other		309,594	275,466	242,923	226,566
Intermediate sources		0	0	13,093	0
State sources		2,307,226	2,311,952	2,150,064	1,887,359
Federal sources		149,978	149,419	190,625	200,208
Total	\$	5,506,007	5,282,589	5,054,597	4,532,913
Expenditures:					
Instruction:					
Regular instruction	\$	1,958,278	1,824,877	1,744,473	1,882,702
Special instruction		743,155	669,142	719,381	642,003
Other instruction		560,747	511,898	473,065	409,380
Support services:					
Student services		64,307	74,091	133,658	128,773
Instructional staff services		103,279	96,818	100,568	123,543
Administration services		538,601	513,783	450,089	427,141
Operation and maintenance of plant services		391,114	366,725	335,670	323,659
Transportation services		213,196	197,981	143,065	137,278
Other expenditures:					
Facilities acquisition		73,987	119,990	192,102	361,474
Long-term debt:					
Principal		274,895	204,290	225,078	219,167
Interest		129,451	138,463	149,020	157,512
AEA flowthrough		170,051	164,998	155,958	151,485
Total	\$	5,221,061	4,883,056	4,822,127	4,964,117

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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(a professional corporation)
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Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards

To the Board of Education of the
Northwood-Kensett Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Northwood-Kensett Community School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated February 29, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Northwood-Kensett Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Northwood-Kensett Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Northwood-Kensett Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Northwood-Kensett Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Northwood-Kensett Community School District's financial statements that is more than inconsequential will not be prevented or detected by Northwood-Kensett Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Northwood-Kensett Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item I-A-07 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northwood-Kensett Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Northwood-Kensett Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Northwood-Kensett Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Northwood-Kensett Community School District and other parties to whom Northwood-Kensett Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Northwood-Kensett Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

February 29, 2008

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2007

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

- I-A-07 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipt listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - The District is aware of the lack of complete segregation of duties and will make changes as the opportunity arises.

Conclusion - Response accepted.

- I-B-07 Supporting Documents for Payments with Credit Cards - Payments made with credit cards do not always have detailed supporting documentation.

Recommendation - The District has a policy in place for credit card usage, which states that the users of the credit cards need to provide detailed receipts for purchases made. The District should review procedures in place with personnel using the district credit cards to ensure the proper detailed documentation will be available with paid credit card statements.

Response - The District will comply.

Conclusion - Response accepted.

- I-C-07 Cash Given to Students - We noted during our audit of the Student Activity Fund that the District gave cash to students as prize money as part of a fundraiser.

Recommendation - Cash should not be given to students as fundraising prizes. The vendor supporting the District's fundraiser should issue checks to the students for the cash prizes. The District should not give cash as prizes.

Response - The District is aware and will make changes as the opportunity arises.

Conclusion - Response accepted.

- I-D-07 Supporting Documents for Payments to Officials - We noted during the audit that payments were made to athletic officials from the Student Activity fund, however, there were not always copies of the contracts with the paid bills.

Recommendation - Pursuant to a valid contractual agreement between the school board and the officials, which includes terms and conditions for payment and compliance with Chapters 279.29 and 279.30 of the Code of Iowa, officials could be paid after the service has been rendered. For non-contract officials or substitute officials, payment should be made after services have been rendered and audited and allowed similar to other vendor payments. The district should have a policy and (athletic) officials should be informed that payment will be made in this manner unless a valid contract exists. Copies of the signed contracts should be supplied to the accounting staff before checks are issued. The signed contract should then be kept with the paid bills.

Response - The District is aware and will make changes as the opportunity arises.

Conclusion - Response accepted.

I-E-07 Gate Admissions - It was noted during the audit that the District utilizes pre-numbered tickets for gate admissions, however, a reconciliation after the event is not performed.

Recommendation - The District should establish reconciliation procedures for gate admissions. At a minimum these procedures should include:

- a. Cash or change boxes should be established with a specified amount.
- b. The District should use pre-numbered tickets.
- c. Two or more individuals should be involved in the cash collection/ticket sales process. In addition to cash collection/ticket sales procedures, the individuals should be instructed to not leave the cash/change boxes unattended under any circumstances.
- d. At the end of the event, cash should be counted and reconciled (by two or more individuals) to sales/pre-numbered tickets sold including the amount of the beginning cash.
- e. To reconcile, the next unsold ticket number less the beginning ticket number determines the number of tickets sold. This number times the price per ticket equals total sales. Total sales compared to total collected should reconcile. Variances, if any should be minimal.
- f. A reconciliation form should be completed and signed off by the individuals responsible for counting and reconciling the cash.
- g. The cash and change box should be turned into the Athletic Director (AD) or designee responsible for the "accounting" function at the event.
- h. The AD or designee should be required to take the cash collections to the night depository at the bank or at a minimum, lock the cash collections in the District's vault or other secure location at the District's office for deposit on the next working day. District procedures should prohibit individuals from taking cash collections home.
- i. A pre-numbered receipt should be issued by the Business Office the next working day in the amount of the confirmed deposit.
- j. Administrative personnel should periodically review/test the process to ensure procedures are working as prescribed.

Response - The District is aware and will make changes as the opportunity arises.

Conclusion - Response accepted.

- I-F-07 Student Activity Fund - We noted during our audit that the Student Activity fund included an interest account.

Recommendation - Interest should be allocated out to various accounts within the Student Activity Fund on an annual basis.

Response - The District will comply.

Conclusion - Response accepted.

- I-G-07 District and Regional Rents - We noted during our audit that the district receives money for use of facilities when hosting district and regional events. The District currently receipts this into the Student Activity Fund.

Recommendation - Chapter 297.9 of the code of Iowa requires rent to be receipted into the general fund. The district should receipt rent collected for facility usage into the general fund.

Response - The District will comply.

Conclusion - Response accepted.

- I-H-07 Sponsor Procedures - During our audit, concerns developed about sponsor procedures. Currently, some sponsors are not turning in supporting documentation for money collected from individuals, fundraising events and other revenue fees. It was also apparent that the sponsors were not turning in collected receipts to the administration office for deposit in a timely manner. It appeared that some sponsors maintained the cash collection in their office/classroom until they had time to turn the funds into the office or until all the funds were collected. We noted that once collected at the office, these were handled in a comparable manner as receipts directly delivered to the office, where receipts are given and deposited. The copies of the receipts issued at the buildings are provided to the central office for posting and reconciling the bank statement. There does not appear to be controls in place to document monies collected and turned in from sponsors to be reconciled to the actual deposit.

Recommendation - The district actually maintains multiple layers of receipting from, sponsors, to the building office, to the central office. When sponsors or fundraising chairpersons submit money to the office for previously collected receipts, they should provide documentation of their receipts. This documentation should be used when reconciling deposits to receipts. The district should take necessary steps to require all sponsors to turn in collected money on a daily basis with a detailed receipts or another form of detailed documentation. This detailed documentation should at a minimum include the individual that the sponsor received the money from, the purpose, the fund/organization/club that needs to be credited, the date and amount.

Response - The District is aware and will make changes as the opportunity arises.

Conclusion - Response accepted.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2007

Part II: Other Findings Related to Required Statutory Reporting

- II-A-07 Certified Budget - District disbursements for the year ended June 30, 2007 exceeded the amount budgeted in the instruction program area.

Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - We will amend the budget if necessary in the future.

Conclusion - Response accepted.

- II-B-07 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- II-C-07 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

- II-D-07 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Jeanette Berge, Special ed aide Spouse owns Berge Oil	Oil/lubricants	\$440
Robin Fredericks, Bus driver & Aide Rose Fredericks, Teacher Associate Spouses co-owns A&I Auto	Tires & Repairs	\$3,829
Tom Sculley, Bus driver Terri Sculley, Aide Owns Village Florist	Supplies	\$284
Ryan Severson, Teacher Owns All-Stars Pizza & Grill	Pizza	\$70

In accordance with the Attorney's General's opinion dated November 9, 1976, the above transactions with the spouse of Jeanette Berge, Rose Fredericks and Robin Fredericks do not appear to represent a conflict of interest.

In accordance with the Attorney's General's opinion dated July 2, 1990, the above transactions with Ryan Severson, and Tom and Terri Sculley do not appear to represent a conflict of interest.

- II-E-07 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

- II-F-07 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-07 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- II-H-07 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- II-I-07 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.
- II-J-07 Financial Condition - During our audit we noted that the District had negative account balances in the Student Activity Fund.

Recommendation - The District should continue to monitor these funds and investigate alternatives to eliminate the deficit.

Response - The District will continue to monitor these funds and investigate alternatives to eliminate the deficit.

Conclusion - Response accepted.

- II-K-07 Electronic Check Retention - Chapter 554D.114 of the Code of Iowa allows the District to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The District retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation - The District should obtain and retain an image of both the front and back of each cancelled check as required.

Response - The District has complied.

Conclusion - Response accepted.